

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

OPIC-03 /095 W

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R 292120Z JAN 76

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 1765

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 1111

EO 11652 GDS

TAGS: ENRG, VE

SUBJ: OIL NATIONALIZATION - STATUS REPORT AFTER ONE MONTH

REF: CARACAS 610

1. BEGIN SUMMARY. EXXON CONTINUES TO BE THE ONLY COMPANY DEFINITELY KNOWN TO HAVE SIGNED FORMAL TECHNICAL SERVICE AND OFFTAKE CONTRACTS. SHELL IS BELIEVED TO HAVE REACHED BASIC AGREEMENT ON THE TERMS OF THE CONTRACT, AND MOBIL IS BELIEVED TO HAVE AN AGREEMENT ON 40,000 B/D OF FUEL OIL EXPORTS. MOST OF THE OTHER COMPANIES ARE MOVING CLOSER TO OFFTAKE AGREEMENTS, AND ALL EXCEPT SUN ARE LIFTING OIL IN THE ABSENCE OF FORMAL CONTRACTS. NEGOTIATIONS ON TECHNICAL ASSISTANCE CONTRACTS ARE MOVING SOMEWHAT SLOWER. AMOCO IS THE ONLY COMPANY BELIEVED TO HAVE RECEIVED ITS COMPENSATION BONDS TO DATE. IT HAS NOT RECUPERATED ITS CASH DEPOSIT IN THE GUARANTY FUND. THE OTHER COMPANIES ARE SCHEDULED TO RECEIVE THEIR COMPENSATION BONDS BY FEB 15, AND HAVE ADOPTED A WAIT-AND-SEE ATTITUDE ABOUT RECOVERY OF THE CASH DEPOSITS. THE DEPOSITS TOTAL ABOUT \$125 MILLION. PETROVEN IS HONORING ITS AGREEMENT TO PAY CASH FOR OIL INVENTORIES.

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CURRENT LIFTINGS BY THE FORMER CONCESSIONAIRES TOTAL

JUST OVER 1.5 MILLION  
B/DMX. THREE REFINERIES ARE CLOSED  
AND TWO MORE ARE PARTIALLY SHUT DOWN. END SUMMARY.

2. CONTRACT NEGOTIATIONS - AFTER ONE MONTH OF NATION-  
ALIZATION, ONLY EXXON IS KNOWN TO HAVE DEFINITELY SIGNED  
FORMAL TECHNICAL SERVICE AND OFFTAKE CONTRACTS. IT IS  
ASSUMED THAT SHELL HAS AGREED TO BASIC TERMS (THE COMPANY  
SUBMITTED ITS LETTER OF INTENT FOR CRUDE PURCHASES TO  
PETROVEN ON JAN 14), BUT WE HAVE CONFIRMED THAT  
IT HAS NOT FORMALLY SIGNED CONTRACTS. OTHER COMPANIES ARE  
MAKING DEFINITE PROGRESS BUT HAVE NOT REACHED THE  
SIGNING STAGE AS YET. MINIES MIINISTRY HYDROCARBONS  
DIRECTOR, AREVALO REYES, EXPECTS THE CONTRACTS WILL BE  
SIGNED NEXT WEEK WITH TEXACO, GULF, AMOCO AND PHILLIPS,  
BUT HE MAY BE OVERLY OPTIMISTIC. HE ALSO EXPECTS TO  
SIGN WITH MOBIL, WITHWHOM HE CONFIRMED THAT THERE  
ALREADY IS A PARTIAL AGREEMENT ON THE VOLUME OF FUEL  
OIL THE COMPANY HAS CONTINUED TO EXPORT REGULARLY.

3. GULF REPRESENTATIVE, LUSI ALCALA SURCE, TOLD US ON  
JAN 27 THAT THIS COMPANY HAS TABLE A DRAFT OFFTAKE  
CONTRACT WITH PETROVEN AND A DRAFT TECHNICAL ASSISTANCE  
CONTRACT WITH THE MINES MINISTRY, BUT CANNOT ESTIMATE  
WHEN AGREEMENT WILL BE REACHED. HE DOES NOT CONSIDER  
HIS COMPANY TO BE IN CONFRONTATION WITH THE GOV. THERE  
ARE MANY PROBLEMS, HE RECONGIZES, BUT BELIEVES THAT  
AGREEMENTS CAN BE REACHED WITH PATIENCE ON THE PART OF  
THE COMPANY. IN THE MEANTIME, GULF IS LIFTING 100,000 B/D  
AT THE PRICES ESTABLISHED BY PETROVEN WITOUT A CONTRACT.  
THIS IS THE QUANTITY THE COMPANY INFORMED THE EMBASSY  
IT WOULD TAKE WHEN IT BECAME APPARENT THAT THE GOV OIL  
PRICE OFFER WAS NOT NEGOTIABLE (CARACAS 13458).

4.

4. AMOCO HANDED A LETTER OF INTENT FOR CRUDE OIL  
PURCHASES, ADDRESSED TO PETROVEN, TO THE MINES MINISTRY  
ON JAN 14. THE COMPANY OFFERED TO COMMIT TO PURCHASE  
AN AVERAGE 18,000 B/D OF ORINOCO HEAVY CRUDE AT THE OFFERED  
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PRICE (ABOUT \$9.50). ONLY THE BOILER PLATE LANGUAGE REMAINS  
TO BE NEGOTIATED BEFORE THIS CONTRACT IS READY TO SIGN.  
HOEVER, THE TECHNICALSERVICES CONTRACT NEGOTIATIONS WITH THE  
MINES MINISTRY ARE NOT AS CLOSE TO BEING CONCLUDED, ACCORDING  
TO THE COMPANY REPRESENTATIVE HOWARD DALTON.

5. ARCO HAS AGREED TO PURCHASE 30,000 B/D OF LAGO  
MEDIO CRUDE, AND HAS ALREADY TAKEN A COUPLE OF SHIPMENTS.

THE BASIC PRICE, REPORTED BY PIW TO BE \$12.40, WAS UN-  
CHANGED. HOWEVER, ARCO REPRESENTATIVE, HUGH SHEFFIELD,  
TOLD US THAT PETROVEN AGREED TO SOMEWHAT BETTER CREDIT  
TERMS AND TO THE ELIMINATION OF GRAVITY DIFFERENTIALS,  
WHICH RESULTED IN A NET REDUCTION OF ABOUT 10 CENTS PER  
BARREL. ARCO TURNED IN A FIRST DRAFT OF A TECHNICAL  
SERVICE CONTRACT TO THE MINES MINISTRY ON JAN 28.  
SHEFFIELD BELIEVES THAT THE COMPANY HAS MADE ABOUT THE  
BEST DEAL IT CAN. THE EIGHT CENT SERVICE FEE, COMBINED  
WITH THE 10 CENT SAVINGS OFF THE QUOTED PRICE, HAS MADE  
IT FEASIBLE FOR ARCO TO LIFT THE ABOVE QUANTITY. LATER  
IN THE YEAR, DEPENDING ON CONDITIONS THEN PREVAILING,  
THE COMPANY MIGHT INCREASE ITS LIFTINGS.

6. CHEVRON REPRESENTATIVE, RONALD KITCH, HAS RECEIVED  
DRAFT CONTRACTS FROM SAN FRANCISCO AND IS HAVING TRANS-  
LATIONS INTO SPANISH DONE BEFORE SUBMITTING THEM TO  
THE MINES MINISTRY. HE IS ALSO STILL IN THE PROCESS  
OF REGISTERING CHEVRON'S NEW COMPANY WHICH WILL AD-  
MINISTER THE TECHNICAL SERVICE CONTRACT. CHEVRON  
LIFTED A CARGO OF 175,000 BARRELS OF FUEL OIL THIS WEEK,  
AND WILL TAKE A SIMILAR CARGO NEXT WEEK. IN FEBRUARY  
IT WILL SHIP 85,000 BARRELS OF BOSCAN CRUDE TO AN  
ASPHALT REFINERY IN GERMANY. KITCH EXPECTS TO INCORPO-  
RATE THESE LIFTINGS INTO THE OFFTAKE CONTRACT OF 25,000  
B/D WHEN IT IS CONCLUDED. KITCH EXPLAINED THAT HE HAS  
HAD TO REQUEST A PRICE QUOTATION FROM PETROVEN FOR  
EACH OF THE ABOVE ORDERS, AND THE PRICE HAS NOT VARIED  
FROM THE ORIGINAL \$10 OFFER. KITCH HOPES TO CONCLUDE  
CONTRACT NEGOTIATIONS WITHIN THE FIRST TWO WEEKS OF  
FEB.

7. SUN LAWYER, HARRY COLLINS, TOLD THE EMBASSY LAST  
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WEEK THAT HIS COMPANY HAS NOT YET TAKEN ANY OIL AND  
CONTRACT NEGOTIATIONS ARE FAR FROM BEING COMPLETED.  
THERE HAS BEEN A HOME OFFICE REORGANIZATION AND THE  
OFFICIAL WHO WAS MOST CLOSELY FOLLOWING NATIONALIZATION  
EVENTS FROM THE LEGAL ANGLE, JOHN WARD, HAS MOVED TO  
ANOTHER POSITION. SUN HAD NO FOREIGN TECHNICIANS IN  
THE VENEZUELAN AFFILIATE, EXCEPT FOR COLLINS WHO COM-  
MUTED BETWEEN CARACAS AND PHILADELPHIA DURING THE YEAR  
LEADING UP TO NATIONALIZATION. COLLINS TOLD US THAT,  
AS A RESULT OF THIS LACK OF CLOSE CONTACT, THERE IS  
ALREADY A DEFINITE STRAIN BETWEEN SUN AND ITS EX-  
EMPLOYEES NOW RUNNING PALMAVEN. COLLINS BELIEVES  
THERE IS ALREADY EVIDENCE THAT PALMAVEN INTENDS TO DRAW  
HEAVILY ON THE GUARANTY FUND ACCOUNT OF SUN FOR VARIOUS  
PROJECTS, AND THIS REINFORCES HIS BELIEF THAT SUN WILL

NEVER SEE THE TWENTY PERCENT OF ITS COMPENSATION TO BE  
RETAINED FOR THREE YEARS IN THE FUND. FIRST EVIDENCE  
OF THIS, ACCORDING TO COLLINS, WAS A REQUEST BY PALMAVEN  
FOR REFITTING OF AN ABANDONED AND STRIPPED FLOOD CONTROL  
STATION ON LAKE MARACAIBO. COLLINS CLAIMED THAT SUN  
MADE A MISTAKE BY CARRYING THE FACILITY ON THE BOOKS AT  
A NET BOOK VALUE OF \$42,000 INSTEAD OF WRITING IT OFF.  
PALMAVEN NOW WANTS TO DRAW AN ESTIMATED \$200,000 FROM  
THE FUND TO OVERHAUL THE STATION. COLLINS ALSO CLAIMS

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OPIC-03 /095 W

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R 292120Z JAN 76

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 1766

C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 1111

PALMAVEN IS BUYING EXECUTIVE TYPEWRITERS AND OTHER MODERN  
OFFICE FIXTURES TO BE CHARGED TO THE FUND.

8. COMPENSATION BONDS - EXCEPT FOR AMOCO THE FORMER CON-  
CESSIONAIRES HAVE YET TO RECEIVE THEIR BONDS. THE CENTRAL BANK  
PLEADED INSUFFICIENT TIME TO PREPARE THESE INSTRUMENTS IN THE VAR-  
IOUS NAMES THE COMPANIES HAD ASSIGNED THEM TO IN ORDER TO AVOID  
INJUNCTIONS. THE BONDS ARE NOW TO BE DELIVERED ON FEBRUARY 15.  
AMOCO MADE NO CHANGE IN THE ASSIGNEE AND GOT ITS BONDS ON JAN 1.  
BUT THE COMPANY DID NOT RECEIVE THE \$750,000 IN CASH IT HAS ON  
DEPOSIT IN THE GUARANTY FUND. RATHER THE CENTRAL BANK CALCULATED  
THE AMOUNT REQUIRED ABOVE THE CASH DEPOSIT TO BRING THE WITH-  
HOLDING UP TO THE NECESSARY 10 PERCENT OF AMOCO'S GROSS INVESTMENT

AND RETAINED COMPENSATION BONDS IN THAT SUM. AMOCO (AS WELL AS OTHER COMPANIES) HAS A SIDE LETTER FROM THE MINISTER OF MINES INDICATING THAT ITS CASH BALANCE IN THE GUARANTY FUND COULD BE REPLACED BY BONDS. BUT THE COMPANY'S APPEALS TO THE CENTRAL BANK AND FINANCE MINISTRY HAVE SO FAR BEEN UNAVAILING.

9. AMOCO NOW HOPES FOR THE CASH REFUND WHEN 80 PERCENT OF THE AMOUNT IT HAS IN THE GUARANTY FUND IS RELEASED TO THE COMPANY. INSPECTION OF THE COMPANY'S FIELD INSTALLATIONS HAS BEEN COMPLETED, AND THE OFFICE INSPECTION IS NOW TAKING PLACE. DALTON ANTICIPATES THAT THE FULL INSPECTION WILL BE COMPLETED AND THE 80 PERCENT RELEASED IN FEBRUARY. THE MOMENT OF TRUTH WILL CERTAINLY COME NO LATER THAN FEBRUARY 15 BY WHICH DATE THE OTHER COMPANIES ARE SCHEDULED TO RECEIVE THEIR BONDS. MOST COMPANIES HAVE A WAIT-AND-SEE ATTITUDE ABOUT RECOVERING THEIR CASH. IT IS SHEFFIELD'S (ARCO) UNDERSTANDING THAT THE GOV WILL FOLLOW THE PROCEDURE OF AUTHORIZING THE GUARANTY FUND TO "INVEST" IN THE COMPENSATION BONDS. THIS PROCEDURE WOULD ALLOW THE FUND TO PAY EACH COMPANY CASH FOR BONDS EQUIVALENT TO THE CASE ON DEPOSIT, AND PRESUMABLY, WOULD NOT REQUIRE AN AUTHORIZING DECREE OR REGULATION TO IMPLEMENT. COLLINS (SUN) HAS THE SAME UNDERSTANDING, BUT IS AFRAID THAT SOMEHOW THE GOV WILL APPLY THIS PROCEDURE IN AN ARBITRARY FASHION. THE PETROLEUM ATTACHE ASKED HYDROCARBONS DIRECTOR REYES ON JANUARY 27 IF THE COMPANIES WILL RECEIVE THEIR CASH FROM THE FUND. HE REPLIED THAT HE WAS AWARE OF AMOCO'S INSISTENCE ON THIS POINT, AND WOULD ADD ONLY THAT THE MATTER WILL BE RESOLVED.

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10. CASH PAYMENT FOR OIL INVENTORIES - IPC REPRESENTATIVE, JOHN DAILEY, AND OTHER OIL COMPANY CONTACTS, REPORT THAT PETROVEN HAS PROMPTLY ACKNOWLEDGED, AND NOT QUESTIONED, VOUCHERS SUBMITTED FOR OIL INVENTORIES THE CONCESSIONAIRES HELD AS OF DECEMBER 31, 1975. DAILEY SAID THAT IPC OIL STOCKS WERE RALATIVELY HIGH ON THAT DATE, AND HE IS GRATIFIED THAT THE GOV IS HONORING THIS AGREEMENT. PAYMENT WILL BE IN THREEE MONTHLY TRANCHES. OTHER COMPANIES CONTACTED REPORTED NORMAL STOCKS, EXCEPT FOR AMOCO, WHICH INEXPLICABLY ELECTED TO EMPTY ITS STORAGE TANKS PRIOR TO NATIONALIZATION, THUS LOSING OUT ON A GUARANTEED TWENTY CENT PER BARREL PROFIT.

11. CURRENT OFFTAKE - AREVALO REYES TOLD THE PETROLEUM ATTACHE ON JANUARY 27 THAT HE DID NOT EXPECT 1976PRODUCTION TO AVERAGE 2.2 MILLION B/D, AS HIS MINISTER AND OTHER GOV OFFICIALS CONTINUE TO FORECAST. CURRENT AND

EXPECTED OFFTAKE IS AS FOLLOWS, REYES NOTED:

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	CURRENT	EXPECTED
EXXON	800,000	965,000

SHELL	450,000	
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GULF	100,000	
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PHILLIPS	50,000	
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MOBIL	40,000	
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TEXACO	35,000	70,000
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ARCO	(30,000)	
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CHEVRON	25,000	
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AMOCO	17,000	
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SUN	?	
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CVP	20,000	
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TALOVEN

GUARIVEN 15,000 COMBINED  
VISTAVEN

TOTALS	1,527,000	1,782,000
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(UNDER EXPECTED COLUMN, BLANK SPACES INDICATE WE ARE ASSUMING NO IMMEDIATE CHANGE FROM CURRENT OFFTAKE. SUN HAS NOT YET OFFERED TO BUY.) REYES DID NOT GIVE A FIGURE FOR ARCO, AND PROBABLY HAD NOT BEEN INFORMED BY THE COMPANY OF ITS DECISION TO LIFT. TEXACO WILL SHORTLY DOUBLE ITS OFFTAKE. FIGURE FOR EXXON IS CONTRACT AVERAGE SIGNED.

12. REFINERY STATUS - CURRENT REFINERY THROUGHPUT IS 668,000 B/D, WHICH REYES STATES IS 52 PERCENT OF CAPACITY. THIS IMPLIES THAT PUBLISHED CAPACITY LEVELS OF 1.5 MILLION  
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B/D ARE NO LONGER ACCURATE. THE CVP MORON REFINERY AND THE FORMER CHEVRON BAJO GRANDE REFINERIES ARE CLOSED. THE FORMER CREOLE QUIRIQUIRE REFINERY AT CARIPITO IS ALSO CLOSED, BUT IN A CONSTANT CYCLING OF THE SAME OIL MODE TO KEEP THE PLANT OPERATIONAL. THE EL CHAURE REFINERY AT PUERTO LA CRUZ (FORMERLY ARCO) AND THE VENEGREF REFINERY (FORMERLY GULF & TEXACO) AT PUERTO LA CRUZ ARE OPERATING HALF SHUT DOWN.

13. COMMENT - THE ONLY COMPANY STILL HOLDING A HARD LINE ON CONTRACT NEGOTIATIONS APPEARS TO BE SUN. THE OTHER COMPANIES HAVE APPARENTLY DECIDED TO ACCEPT SOME DEGREE OF OFFTAKE AT THE PETROVEN PRICE RATHER THAN OPT OUT. IN THE CASE OF SOME COMPANIES, SUCH AS CHEVRON, THE PRESENT STRATEGY MAY BE TO HOLD OFF FORMAL CONTRACT SIGNING UNTIL THE SECOND QUARTER IN THE EXPECTATION OF A BETTER PRICE. PETROVEN WILL BEGIN SECON QUARTER PRICE NEGOTIATIONS BEFORE THE END OF FEBRUARY.

14. THE KEY QUESTIONS AT THE MOMENT IS WHETHER THE GOV WILL ALLOW THE COMPANIES TO RETIREVE THEIRCASH ON DEPOSIT IN THE GUARANTY FUND. THE GOV'S RECORD ON THIS KIND OF COMMITMENT TO THE COMPANIES HAS SO FAR BEEN GOOD. BUT IT WILL BE PAINFUL FOR THE GOV TO PAY OUT THE \$125 MILLION IN CASH NOW IN THE FUND GIVEN DECLINING OIL REVENUES AND THE EVEN LARGER PAYMENTS DUE THIS FIRST QUARTER FOR MATRIALS AND OIL INVENTORIES. THE GOV STILL HAS TWO WEEKS TO WORK THIS ISSUE OUT WITH THE COMPANIES. END COMMENT. SHLAUDEMAN

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